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Taylor, Richard Vipon

Testimony of R.V. Taylor...

Mobile

[1917]

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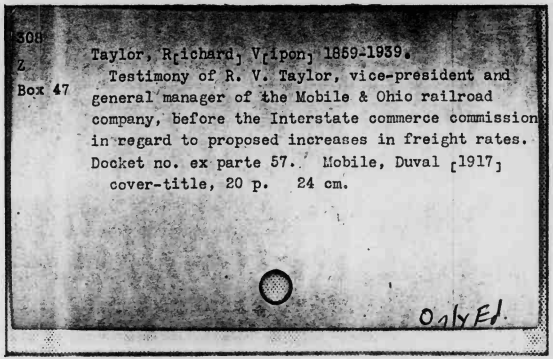
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TESTIMONY

of

R. V. TAYLOR,

Vice-President and General Manager

of the

MOBILE & OHIO RAILROAD COMPANY.

BEFORE THE

Interstate Commerce Commission

In Regard to Proposed Increases in Freight Rates.

Docket No. Ex Parte 57

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J. E. DUVAL PRINTING CO., INC., MOBILE

IN THE MATTER OF

Petition for Fifteen Per Cent Advance in Freight Rates

BEFORE THE

Interstate Commerce Commission

DOCKET NO. EX PARTE 57.

—o—

STATEMENT OF

R. V. TAYLOR,

Vice-President and General Manager

of

MOBILE & OHIO RAILROAD COMPANY.

—o—

Mr. Prince: I call Mr. Taylor, Vice President of the Mobile & Ohio Railroad Company.

MR. R. V. TAYLOR,

was called as a witness and, having been first duly sworn, testified as follows:

Mr. Taylor: Gentlemen of the Commission, as stated by Mr. Prince, I represent the Mobile & Ohio Railroad Company.

This company owns a line of railway, and operates it, between Mobile, Alabama, and St. Louis,

Missouri, and a main branch between Starkville, Mississippi, and Montgomery, Alabama. It has several short branches, averaging between nine and thirty miles in length. It has trackage rights between Corinth, Mississippi, and Birmingham, Alabama, making a total operated mileage of 1,160.30 miles.

This Company is a party to the petition now pending before this Honorable Commission for an advance of fifteen per cent in its freight rates.

We have received from the Commission a memorandum which indicates the form in which you desire us to present facts to you here today as our testimony, and we have endeavored, as far as practicable, to follow the indication of the wishes of the Commission.

Now, you have asked, first, as to the emergency for this advance. Our reply to that—

The Chairman: (Interposing) Just a moment. Lest there be any misapprehension in regard to that memorandum, it was not the idea of the Commission to indicate a program to be followed by the carriers in putting on their evidence, but merely to make note of certain matters which might be included in the presentation of the case. It is not intended to be exclusive at all.

Mr. Taylor: I understand.

Now, as to the question of this emergency: For many years the current revenues of the Mobile & Ohio Railroad Company have been barely sufficient to meet its operating expenses, taxes, fixed charges, and to pay a small dividend on its stock which has never exceeded five per cent and which, for the past

seven years, has been at the rate of four per cent, and to make such expenditures from year to year for additions and improvements to the property necessary for the maintenance of the business of the Company, but which do not furnish a basis for the present drawing in of new capital by the floating of funded obligations and which for this reason can only be provided for by the revenue from operations.

This Company is now confronted with a radical increase in the cost of both labor and material absolutely necessary for its operation, and which, when added to its present operating expenses, will so increase the total that the residue of gross earnings will be insufficient for the proper purposes of the company.

What is known as the Adamson Law greatly increased the wages of a large proportion of its trainmen, effective January 1, 1917. This advance has indirectly affected nearly every schedule governing the pay of both its organized and unorganized labor: There has been an advance since January 1st, of thirty per cent in the cost of coal, and other supplies have advanced in a greater ratio. These conditions are general in character and create an emergency which affects all carriers. It is impossible for me to state the exact degree to which any other line is affected. There can be no question, however, that the causes above referred to affect every common carrier in this country and that the necessity for additional revenue is general in character.

This relief must take the form of a percentage advance in rates, for the reason that freight rates

are now adjusted according to what long experience has shown to be the proper proportion of the general traffic burden each commodity should bear. A percentage advance is absolutely necessary to avoid discrimination both between commodities and localities, as one point of distribution may be concerned in the movement of one or more classes of traffic not handled by another point of traffic origin, and unless applied equally to all localities and to all commodities, except as omitted from the advance by all lines, the present relationship between both commodities and localities established by long custom, would be interfered with if not entirely destroyed.

To illustrate, if an advance was made affecting the Mobile & Ohio from the Gulf ports to the west and was not correspondingly made affecting the trunk lines leading from the North Atlantic ports to the same territory, it would disturb a condition of affairs which the accumulated traffic experience of many years has nicely adjusted. To make an illustration: As one piece being moved upon a chess board changes the relative position of every piece, so any great change in any particular part of the traffic of the country absolutely affects in a radical way the traffic in almost every other part of the country. I know you gentlemen are so familiar with that general question of traffic that it needs nothing more than a mere illustration.

The percentage advance may change—I refer to this because some of our traffic people have

brought this up. The percentage advance may change to a small degree the fixed amount of some of the existing differentials, but this objection is insignificant when weighed against the great ends to be accomplished, especially as it is expected that these small differences will be adjusted in the permanent tariffs.

I make reference to that for the reason that as a thing of great moment at this time someone raised the point of a difference between two competing centers and that there has been an agreed differential on the business. If you stopped to adjust that as you went along, it would open Pandora's box. So, I hope that no one will raise a question of that kind, because if it is raised I feel absolutely certain that it will present so many difficulties that it will make this end, which we are all trying honestly, I believe, to gain, one that is absolutely unattainable.

As far as the Mobile & Ohio Railroad is concerned, this percentage advance must be at least fifteen per cent to provide full and adequate funds to meet the increased cost pressed upon this Company by the advance in the price of both labor and material referred to.

In substantiation of this statement, we beg to submit figures showing that on the basis of the business of the Mobile & Ohio Railroad Company, for the year 1915-1916, the addition to its operating expenses account of increases in cost of labor and material, determined at the time the statement was

completed, amounted to $1,166,196, composed of the following items:

Adamson Law	$149,000
Other Classes of Labor	105,303
Coal	249,308
Other Material and Supplies	611,589
Taxes	50,996
Making a total of	$1,166,196

Adding the above increase in costs to the operating costs for that year would have changed the net result (without provision for dividends) from a surplus of $847,739.00 to a deficit of $318,457.00.

Since this statement was prepared, a few days ago, other labor conferences have taken such form as to make clear that these figures must be largely added to. In a conference now going on with its shopmen an offer of an advance of $174,000 per annum, which is an amount considerably greater than that made necessary by the Adamson Law, has been made and declined by the men. The final settlement with these men and with other employes sympathetically affected and now demanding increased pay, together with further advances in cost of material of which we have received notice since this statement was prepared, will amount to more than $450,000 per annum. This, added to the $1,166,196, aggregates $1,616,196, which is greater in amount by several hundred thousand dollars than fifteen per cent of our gross freight revenue for the year 1915-1916.

This emergency has been created alone by the increase in cost of labor, and the advance in the cost of coal and other material. We believe that the advance in labor since January 1, 1917, has been the result of two causes: First, the Adamson law in its direct and indirect effect, and, second, the great increase in the cost of living, no doubt mainly the result of war conditions.

While that is, to some extent, a matter of opinion and conjecture, as to what has caused the great advance in every item which goes to make up the cost of a man's living, still I think we can reasonably say that the war has been the prime cause.

The advance in the cost of material rests upon the same prime principles as the advance in the cost of railroad labor. Taking coal for an example, the mine operators in Illinois, from which the Mobile & Ohio Railroad Company draws a large part of its fuel, were granted an advance of twelve cents per ton, on March 1st, on account of increased cost of blasting powder and other material used in mining operations. Although these mine operators had a contract with their miners which did not expire until March 31, 1918, these men made a demand for an immediate advance to meet the emergency caused by increased cost of living. This resulted in an advance of twenty per cent in all mine labor, which will amount to a further advance in cost of coal to this Company, effective April 16th, of from twenty to twenty-five cents per ton, making a total advance since January 1st of from thirty-two to thirty-seven cents a ton.

We have not agreed with the mine operators yet as to exactly the result in cents per ton of the twenty per cent advance given to the miners, and so forth. That is pending; but it will certainly not be less than twenty cents, and probably twenty-five cents.

This is an apt illustration of the fact that one emergency creates another, and goes to show that in the endless chain of advance in cost which is now going on in this country the railroad cannot expect exemption and must have a corresponding advance in compensation for its services if it continues to exist and properly perform its functions. I think we may therefore reasonably conclude that tthe advance in cost of labor and material since January 1, 1917, has created an extraordinary emergency and that the cause of both of the advances may be found in the direct and indirect effect of the Adamson law and the war conditions.

So far as this line is concerned, this emergency did not exist prior to January 1, 1917, (we were getting along very well), and only began to accumulate force on April 1, 1917, and its full effect will not reach the operations of this Company prior to July 1, 1917.

Now, as to how to determine when this emergency is passed: The only criteria which can be later used in determining that the emergency is passed is an amelioration in the conditions that produced it.

I do not see that there is any other answer which can result. If this emergency has resulted from certain causes, it cannot be expected to be removed until the causes of the emergency have been taken away.

In other words, if there should be a reduction in either the cost of labor or of material, above referred to, as would be indicative that the emergency, to meet which this advance in rates has been asked, has been relieved, or if there should be such an increase in the volume of traffic as would produce additional revenue great enough in amount to remove the necessity for the increase in rates now asked for.

Now, as to war conditions: The management of the Mobile & Ohio Railroad Company knows of no additional burdens which will result from the war, upon which the Government of the United States has embarked, except taxes in connection therewith. As loyal citizens, we will expect to bear our share of the burden when it comes about. I do not know how it can be estimated what that will be.

The Mobile & Ohio Railroad Company is a land-grant road, and its management must necessarily look forward to the possibility of this bringing about an important reduction in its revenue in future.

Now, as to labor and wages, as t othe immediate effect that is before us, and as to the future effect:

(a) The total amount of the increase in wages during the period January 1, 1917, to March 31, 1917, resulting from the advance in wage rates, which became effective since December 31, 1916, amounted to $36,491.11—very small.

(b) All of this amount, $36,491.11, has been included in the monthly report of operating expenses made to the Interstate Commerce Commission.

(c) Of this amount, $35,790 was directly the result of the Adamson Eight-Hour Law.

(d) The percentage of the increase shown under question (a) is 1.17 per cent of the total operating revenue for a like period;

The percentage of the increase shown under question (a) is 1.56 per cent of the total operating expenses for a like period;

The percentage of the increase shown under question (a) is 4.61 per cent of the net operating revenue for the three months.

I have said that strong emphasis must be placed upon the fact that the main advances pending in cost of labor and material are not included in above figures.

Almost all of the material used between January 1, 1917, and March 31, 1917, was contracted for prior to December 31, 1916, and as our contracts were expiring, of course we did all we could to get in the materials before the radical advances in cost.

We have before referred to settlements with our mechanical forces, which will govern this pay from March 1st, and to other advances in labor and material now pending and which must be taken into consideration. If these advances had all been in effect for the three months ended March 1, 1917, the answer to the question as to the percentages would have been as follows:

The percentage of the increase shown under question (a) is 4.76% of total operating revenue; not of freight.

The percentage of the increase shown under

question (a) is 6.38% of total operating expenses.

The percentage of the increase shown under question (a) is 18.80% of the net operating revenue.

Now, as to cost of fuel, materials and supplies:

(a) Our main fuel contract is now between $1.50 and $1.55 per ton (the exact figure not settled upon,) as compared to $1.18 per ton prior to December 31, 1916. No freight charges on coal are paid by this company, all coal being purchased on its line. No fuel oil issued.

I have a statement here of increases in cost of some of the principal items which go to make up the cost of railroad construction. This ranges all the way from 24% up to 150 and 200%. I had a copy of this printed, and it will be filed with these papers. I will not burden you with the details. We are all familiar with those advances; but they will be filed for ready reference.

(The statement, so offered and identified, was received in evidence and thereupon marked "Exhibit Taylor No. 1, received in evidence May 8, 1917", and the same is forwarded herewith).

Mr. Taylor: Recent Changes in Rates:

(a) The increase in gross operating revenue which it is hoped will result from advance in rates, which have become effective since January 1, 1917, is $150,000 per annum. This is a very rough estimate.

(b) There has been no material reduction in gross operating revenue by reduction in rates going into effect since January 1, 1917.

(c) The increase in net operating revenue of

the Mobile & Ohio Railroad Company for the year ended December 31, 1916, was.....$74,782.07

For the three months ended March 31, 1917, it was $34,094,47

So, for the fifteen months we had an increase in net revenue of $108,776.54

And we had an increase in charges to income for taxes for the same period of.....$89,310.00

Showing that nearly all of the increase in net operating revenue was absorbed through increase in taxes:

Now, as to the reasonableness of the proposed rates:

I believe that everybody admits that capital is invested in rail transportation companies for the purpose of creating the means for the transportation of passengers and freight and is entitled to the same consideration given to capital invested in other legitimate enterprises. Every element of cost incident to the operation of railroads has been increased from twenty to one hundred and fifty per cent and it must be reasonable to allow the rail lines some increase in the charge they must make to continue operation and pay a reasonable return on the capital invested.

Of course, in answering the question as to the reasonableness of the charge, we know everything mainly by contrast or comparison. We may take any business; I do not care whether it is industrial or commercial, whether it is the miner, the manufacturer, the banker; they are all absolutely under the effect of the increase in cost of doing business. And

every single one of them has asked for relief by an increase in the price of their products.

Take the farmer. He has increased his corn and his wheat almost immeasurably. The manufacturer: Everything he sells has been increased. Every man in business has been able to meet this increased cost, in an endless chain, until you come to the common carriers.

Now, the common carrier comes and asks for fifteen per cent. Let us see if we can find some illustration.

They say that bread is the staff of life. I know that flour has advanced at Mobile from six or seven dollars a barrel to fifteen or sixteen dollars. Now, the fifteen per cent advance in the rate on a barrel of flour from St. Louis to Mobile will be about five cents.

If the railroad is not exempt from the law of business, from the elementary law which requires an increase in price as a result of the increase in cost, and if we can come here, in good faith, and show you that every element has increased in cost to us, I say, after forty years' of experience in all of the departments of the railroad business (and I believe I am capable of knowing the facts, and I believe I have a reputation for stating the truth), I hardly know of a single element that goes into the cost of operating a railroad that has not radically increased.

The only thing the railroad has to sell is the transportation of freight and passengers; and we come in now as one part of this endless chain, as being the most easily adjusted part of it, as being a

thing which can be distributed with the least individual hardship, and we ask for fifteen per cent, and we are trying to see what will be the result of the fifteen per cent. As I say, it will be an increase of five cents in rate on a barrel of flour—the very essence of the staff of life. If we applied it to a suit of clothes, it would be still more infinitesimal.

The question you naturally want to know is how the railroads shall make clear the reasonableness of asking for a 15 per cent advance in rates. Flour has advanced from $6 or $7 a barrel to $15 or $16 a barrel, and ask that the railroads shall not share all the burden of that advance. I have looked into the faces of labor for the past three months and they tell me that flour has advanced to that price, "We must have 25 per cent advance in our pay; we have got to live." We have answered that in the affirmative.

As I say, it is an endless chain. It must be; there can be no break in it, for if you have one break in this endless chain something must go down. The railroads come in a frank way to this Commission, relying upon this great commission.

I heard a question asked this evening which very much impressed me, and that was this: "You railroads need a great deal of money, and if you have to absorb it all to pay these things, how is that going to strengthen your credit?"

The very minute that it goes out to the world that this great Commission recognizes the moral and fundamental right of the railroads of the country to be treated just as a banker and just as a manufacturer and just as a merchant is treated, the result will be

instantaneous, and I believe it will be worldwide. It would do a great deal to re-establish our credit.

Take the line that I represent. We are now suffering for the want of additional capital for many purposes, for additional terminals, for additional passing tracks, for additional water stations, for additions of every kind to better serve the people, and we cannot borrow the money to do these things on account of the precariousness of our business as compared with other business. The merchant and the manufacturer have their recourse. When they find that their costs have run up, they can increase their price. It is only the common carrier which is exempt from this general law and this general rule of business. When a common carrier sees its costs mount up it is not able to get a corresponding advance. But now I believe we will get it. We have come, I feel, to the right place and in the right way, and on behalf of the Mobile & Ohio Railroad we place our case before you.

There is one other question, and that is the application of this proposed revenue. We think we have made a conservative estimate that this will bring us a million and three hundred thousand dollars. We have included everything in that, even the other advance. It is the maximum figure. As we must absorb that in the payment of these amounts which have been pressed upon us, the question as to just what the application will be is answered by saying this.

The approximate amount of increase in gross revenue expected from the 15 per cent advance is

$1,300,000. This will be used in part payment of the increased cost of labor and material, as compared with the year 1915-1916, which totals $1,616,196.00.

Gentlemen, we submit our case. I will be glad to answer any questions.

Commissioner Meyer: Mr. Taylor, you said that the Mobile & Ohio was a land grant railroad. Have you incurred certain obligations with respect to the rates that you have charged for the transportation of government freight?

Mr. Taylor: Oh, yes, sir; we get only I think 55 per cent of the current rates—you mean, whether we are obligated to the government to transport the government's goods at a less rate?

Commissioner Meyer: Yes, sir.

Mr. Taylor: Yes, sir.

Commissioner Meyer: Does that apply also to passenger?

Mr. Taylor: Yes, sir.

Commissioner Meyer: It applies to soldiers as well?

Mr. Taylor: Oh, yes.

Commissioner Meyer: The transportation of troops?

Mr. Taylor: Everything—troops and everything else.

Commissioner Meyer: You have been railroading a good many years, now, and you know about how many people occupy the ordinary passenger coach.

Mr. Taylor: Yes, sir.

Commissioner Meyer: And when about 50 per

cent of your seats are full, the public begin to complain that they are overcrowded.

Mr. Taylor: That is right; yes, sir.

Commissioner Meyer: About what per cent of the seats do you occupy, ordinarily, on your passenger trains?

Mr. Taylor: Well, I would—that would be hard to say, offhand. You take our trains, and they are heavily loaded. If we had very much other traffic we would have to put on double trains, and we cannot afford to run double trains.

Commissioner Meyer: How many double seats do you have in the average coach?

Mr. Taylor: Well, now, let us see. I would have to figure that out.

Commissioner Meyer: A day coach, I mean.

Mr. Taylor: I would say about sixty people could occupy the seats.

Commissioner Meyer: You have thirty double seats?

Mr. Taylor: Yes, sir; about thirty double seats. Let us see. We carry our coaches, I should say, as a rule, about 60 per cent loaded.

Commissioner Meyer: You carry as many as sixty per cent?

Mr. Taylor: I think about sixty per cent.

Commissioner Meyer: What is the average you get per train mile, passenger train mile?

Mr. Taylor: Not much over a dollar—Oh, may be a dollar and five cents or a dollar and six cents. You know, I am speaking from my memory entirely.

Commissioner Meyer: You have seen the cir-

culars sent out by the government which designate that three privates, three soldiers, shall occupy two double seats and the officers shall have one double seat each?

Mr. Taylor: I am not familiar with the detail. I have no doubt it was sent out.

Commissioner Meyer: Very recently I have seen such a circular.

Mr. Taylor: Yes, sir.

Commissioner Meyer: Do you know what the Mobile & Ohio has actually earned on the transportion of troops?

Mr. Taylor: Very small; we have so far handled very little; I would say very little. I think probably two or three trains down to Mexico, special train service.

Commissioner Meyer: I am not referring to the movement to Mexico very recently, but there was a mobilization some four or five years ago, troops being sent to the Mexican border. You recall that?

Mr. Taylor: You mean, going back to the Spanish-American War?

Commissioner Meyer: Oh, no; four or five years ago.

Mr. Taylor: I do not think we handled them.

Commissioner Meyer: There were troops sent down there.

Mr. Taylor: We handled very few. We just happened to be geographically situated so that we handled a few.

Commissioner Meyer: Do you know what the

railroads actually earned per train mile for transporting those soldiers?

Mr. Taylor: No, sir; but I expect it was a very good revenue compared with our ordinary revenue—but you appreciate it had to be run in special trains?

Commissioner Meyer: I understand.

Mr. Taylor: Now I will just give you an illustration. We handled, I think, a few trains from Montgomery when this recent mobilization took place. We had to have this equipment assembled without regard to our other business. You have got to put it there and keep it there just as long as the government wants you to, and you have got to run those trains just exactly as the government tells you to run them. Your idea is very correct. If we have got a through train between Mobile and St. Louis, and it is loaded to full 60 percent of its capacity, and you can get somebody to come in with the other 40 percent, and that 40 percent does not crowd out the other passengers there, or if you have to provide additional facilities you can do it with small cost; but when you have got a demand made upon you that you shall run empty equipment with motive power and all that, and do it arbitrarily and assemble it at a given point and keep it there just as long as your master tells you you shall keep it—and we are loyal people and are glad to do it that way—you will find you have an entirely different basis.

Commissioner Meyer: But your ordinary train earns $1.25 or $1.50, and if it earns $1.50 per train mile that is pretty good advance.

Mr. Taylor: A pretty good advance.

Commissioner Meyer: Do you know how much the railroads actually did earn per train mile for transporting troops to the Texan border?

Mr. Taylor: No; I expect, a considerable amount of it.

Commissioner Meyer: Would you think it was as much as $3.00?

Mr. Taylor: Very likely.

Commissioner Meyer: Would it surprise you if it was $5?

Mr. Taylor: No.

Commissioner Meyer: Or if it was $6?

Mr. Taylor: No; I would not be surprised if it was six.

Commissioner Meyer: Well, it was over six.

Mr. Taylor: Let me state this: Would it surprise you if I told you that the cost of handling each one of those men in that train was just as much as it was to handle our ordinary passenger traffic? Would it surprise you if I told you that?

Commissioner Meyer: Not at all. I think it is something that we ought to take into consideration.

Mr. Taylor: Would it surprise you if it were three times as large? I have answered your question. Would it surprise you if I told you it was six times as large?

Commissioner Meyer: No.

Mr. Taylor: I can tell you that honestly, and not depart from the truth.

Commissioner Meyer: I would not be surprised at all if you could show the figures.

(Witness excused.)

MSH 21073

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